

VZCZCXRO5120  
RR RUEHVK  
DE RUEHUL #0780/01 1350704  
ZNR UUUUU ZZH  
R 150704Z MAY 09  
FM AMEMBASSY SEOUL  
TO RUEHC/SECSTATE WASHDC 4350  
RUCPDO/USDOC WASHDC 8557  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEHRC/DEPT OF AGRICULTURE WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEAUSA/DEPT OF HHS WASHDC  
RHEHNSC/NSC WASHINGTON DC  
RUEHKO/AMEMBASSY TOKYO 5967  
RUEHBJ/AMEMBASSY BEIJING 5875  
RUEHGP/AMEMBASSY SINGAPORE 6565  
RUEHHK/AMCONSUL HONG KONG 3859  
RUEHSH/AMCONSUL SHENYANG 4391  
RUEHVK/AMCONSUL VLADIVOSTOK 1637  
RUEHIN/AIT TAIPEI 3368

UNCLAS SECTION 01 OF 03 SEOUL 000780

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EINV](#) [ENRG](#) [ETRD](#) [KS](#)

SUBJECT: SOUTH KOREA ECONOMIC BRIEFING - APRIL 2009

-----  
In This Issue  
-----

-- Manufacturers' Confidence Posts Largest Gain since 2003  
-- February Industrial Output Weak but Higher than in January  
-- Korea Successfully Issues Foreign Currency Bonds of USD 3 Billion  
-- Current Account Posts USD 3.68 Billion Surplus in February after January Deficit  
-- Foreign Exchange Reserves Increase to USD 206 Billion in March  
-- Job Losses Surge to 142,000 in February, Pushing Unemployment to 3.9 Percent  
-- Domestic Delinquency Ratios Rising through February, especially for SMEs  
-- Restructuring of Shipping Companies Begins with Bank Assessments  
-- Second Round Assessment Results for Construction Firms and Shipbuilders  
-- BOK Reduces Forex Auction by USD 1 Billion, Reducing Fed Swaps to USD 15 Billion  
-- BOK Holds Key Rate Steady at Two Percent  
-- More Korean Companies Borrow Overseas  
-- Household Credit Delinquency Program

-----  
Domestic Economy  
-----

11. (U) Manufacturers' Confidence Posts Largest Gain since 2003: Manufacturers' confidence for April rose as more companies expressed optimism over eased woes in the financial market and the expected effects of the government's stimulus package, the central bank said on March 31. The business survey index (BSI) of manufacturers' expectations rose to 60 for April from 50 in March. Meanwhile, the BSI for manufacturers' current business sentiment climbed to 57 in March, compared with 43 the previous month, marking the largest monthly gain since January 2003 when the central bank began to compile related data. The nationwide survey of 2,929 companies was conducted March 16-23.

12. (U) February Industrial Output Weak but Higher than in January: Industrial output in February fell at a slower pace than in January. The National Statistical Office (NSO) said on March 31 that industrial production contracted 10.3 percent in February from a year earlier, down from January's 25.5 percent fall, which was the worst performance since 1970. Adjusted seasonally and viewed on a month-to-month basis, however, production rose 6.8 percent, leading some analysts to conclude that the worst might be over for the Korean economy. The production of semiconductors and automobiles,

two of Korea's major export items, increased 18.4 percent and 18.9 percent, respectively, from January levels. Inventories fell 4.5 percent from a month earlier, with factories operating at an average of 66.7 percent of capacity, up from 61.4 percent. The services sector output rose 1.2 percent from a month earlier. Seasonally adjusted retail sales jumped 5 percent. On the other hand, corporate facility spending on machinery and telecommunications fell 5.4 percent in February.

13. (U) Korea Successfully Issues Foreign Currency Bonds of USD 3 Billion: The Ministry of Strategy and Finance confirmed on April 9 the government raised a total of USD 3 billion abroad by successfully selling dollar-denominated state bonds, a move that is expected to pave the way for local banks and companies to secure foreign currency. After the announcement of the successful bond issuance, local financial markets jumped sharply higher and the Korean won appreciated against the U.S. dollar. The USD 1.5 billion five-year foreign currency stabilization bonds were priced at a yield on the U.S. Treasury plus 400 basis points, while the USD 1.5 billion 10-year bonds were priced at 437.5 basis points over the U.S. Treasury rate. The size of the global bond sale was increased to USD 3 billion from an initial plan of USD 2 billion due to swelling demand by investors from the U.S., Europe and Asia, the ministry said, noting the order book surpassed USD 8 billion. The bond sale was led by six financial institutions chosen by the ROKG: Samsung Securities, Deutsche Bank, Goldman Sachs, Merrill Lynch, Citigroup and Credit Suisse Group. This was the first state bond issuance since November 2006, when the ROKG issued USD 1 billion in foreign currency stabilization bonds. The government plans to raise an additional USD 3 billion overseas by the end of the year, according to the ministry.

SEOUL 00000780 002 OF 003

14. (U) Current Account Posts USD 3.68 Billion Surplus in February: South Korea's current account in February shifted to a surplus of USD 3.68 billion from the previous month's USD 1.64 billion deficit, as the goods account swung to surplus and the travel and current transfers account surplus widened. The goods account shifted from January's USD 1.74 billion deficit to a surplus of USD 3.15 billion, as imports shrank by more than exports. The central bank predicted on March 30 that the country is likely to see a considerable current account surplus for March as the trade surplus will be sizable and dividend payouts by local firms to foreign investors will be limited.

15. (U) Foreign Exchange Reserves Increase to USD 206 Billion in March: Korea's official foreign reserves as of the end of March 2009 amounted to 206.3 billion dollars, up USD 4.8 billion dollars from previous month USD 201.5 billion. The increase was mainly attributable to a sharp rise in operating profits on the foreign reserves, to a decrease in the value of the U.S. dollar (increasing the dollar value of non-dollar denominated assets in the reserves); and to redemptions at maturity by the National Pension Service of its currency swaps agreement with the Bank of Korea (USD 500 million).

16. (U) Job Losses Surge to 142,000 in February, Pushing Unemployment to 3.9 Percent: Korea lost more jobs than it generated in February for the third consecutive month, with worsening labor market conditions hitting university graduates particularly hard. According to the National Statistical Office (NSO), 142,000 jobs disappeared in February after net slides of 103,000 in January and 12,000 in December last year. February marks the largest year-on-year job loss since September 2003, when the nation lost 189,000 jobs in the aftermath of the bursting of a credit card bubble. Compared to a year ago, the February unemployment rate rose from 3.5 to 3.9 percent and the jobless rate among people aged 15-29 reached 8.7 percent from 7.3 percent. The Lee Myung-bak administration has been forced to abandon its pledge inaugural pledge to create 350,000 new jobs in 2009.

17. (U) Domestic Delinquency Ratios Rising through February, especially for SMEs: The preliminary delinquency ratio for won-denominated bank loans as of the beginning of March was 1.67 percent, up 0.66 percentage points from the same period a year earlier. The delinquency ratio for corporate loans increased to 2.31 percent, up 1.06 percentage points from February of last year. The driver of the trend is that the SME delinquency ratio increased to 2.67 percent, up 1.27 percentage points from a year earlier. The delinquency ratio for household loans stood at 0.89 percent, up 0.13 percentage point from a year earlier, due to the economic downturn. The overall picture is positive compared to other economies but nonetheless shows some deterioration in the soundness of the assets of commercial banks.

18. (U) Restructuring of Shipping Companies Begins with Bank Assessments: In line with the existing corporate restructuring procedures, creditor banks began in March to conduct credit risk assessments of shipping companies. Shipping has been hit hard by the global economic slowdown and is the third sector (after construction and shipbuilding, see below) to undergo a corporate restructuring review by the creditors. To facilitate the restructuring process, ROKG financial authorities advised creditor banks to complete risk assessments by early May for shipping companies. Based on the result of the assessment, creditor banks will decide on ways to support the restructuring plans devised by either creditor banks or the companies themselves. The government will take further regulatory steps to enhance the transparency and operational efficiency of the process.

19. (U) Second Round Assessment Results for Construction Firms and Shipbuilders: Following the second round of credit risk assessment, the major creditors of construction and shipbuilding companies on March 27 announced that 20 additional companies would undergo corporate debt workout programs intended to prevent an accumulation of credit problems for firms facing cash flow issues. Out of the 74 companies that were reviewed, 27 percent were selected for

SEOUL 00000780 003 OF 003

restructuring, higher than the 14.3 percent chosen in the first round. The higher figure has partially mollified critics charging that the restructuring program failed to address many serious credit risks in the affected sectors. On the other hand, the companies chosen in the second round are smaller and leave the banks less exposed. Analysts have estimated that 196 billion won (USD 148 million) in additional loan loss provisions will be required in this second round. Banks account for 112 billion won (USD 85 million), savings banks for 65 billion (USD 49 million), and other institutions for 19 billion won (USD 14 million) of this credit exposure. As of end-February 2009, creditors' exposure in the 20 selected companies was 1.6 trillion won (USD 1.2 billion) or 17.2% of the 9.2 trillion won (USD 6.97 billion) in total exposure in the 74 companies reviewed in the second round.

10. (U) BOK Reduces Forex Auction by USD 1 Billion, Reducing Fed Swaps to USD 15 Billion: Reflecting the improved foreign currency liquidity situation in commercial banks, the Bank of Korea (BOK) auctioned only USD 2 billion out of USD 3 billion in loans maturing on April 9. The central bank justified the action based on the expectation that the current account would remain in surplus in April and that market conditions for domestic banks would remain favorable. By reducing the amount of the auction by USD 1 billion, the BOK reduced the amount drawn against the Fed-BOK currency swap to just USD 15 billion.

11. (U) BOK Holds Key Rate Steady at Two Percent: In a monthly policy meeting on April 9, the Bank of Korea (BOK) again held the benchmark seven-day repo rate steady at a record low of two percent for April. Between October and February, the BOK had trimmed the rate by 3.25 percentage points from 5.25 percent. In announcing the decision, the BOK said the economy is still falling but contractionary pressure has decreased since the end of February, e.g., through the stabilization of exports and improvement in the current account. The central bank also said it would raise the cap on its low-rate loans to commercial lenders to 10 trillion won (USD 7.6 billion) from the current 9 trillion won (USD 6.8 billion). The

loans, which commercial banks then re-lend solely to small and medium enterprises, carry an annual interest of 1.25 percent.

¶12. (U) More Korean Companies Borrow Overseas: With increased global liquidity, more Korean firms are trying to expand foreign fund-raising. Korea Gas, the world's largest liquefied natural gas buyer, is considering selling USD 500 million in bonds this year. State-run Korea Electric is seeking to borrow USD 600 million. Korea National Oil Corp., the state-run oil developer, is seeking USD 1.7 billion from overseas this year. State-run lenders Korea Development Bank and Export-Import Bank of Korea sold USD 4 billion of global bonds in January. Korean steelmaker POSCO borrowed USD 700 million on March 19. Hana Bank and competitor Woori Bank borrowed USD 1 billion and USD 300 million, respectively, on April 2 and April 6.

¶13. (U) Household Credit Delinquency Program: The Financial Supervisory Service (FSS) announced on March 10 that the Credit Counseling and Recovery Service (CCRS) and creditor institutions will run a "Pre-Workout Program," in support of individual borrowers who are between one and three months delinquent. This is a preemptive step against further increase of household delinquency and began on April 13 for a one-year period. An applicant must satisfy three criteria: total debt of under 500 million won (USD 379,000); the delinquency is 30-90 days in length; and, the ratio of new credit to total existing debts (30% maximum).

STANTON